

WSJ 12/12/2008 Switzerland Gains Appeal as a Tax Haven

By BEN CASSELMAN
AND JESSE DRUCKER

Several big U.S. companies are reincorporating from Bermuda to Switzerland, helping them avoid expected legislation aimed at corporations located in tax havens.

Conglomerate Tyco International Ltd. and oil-industry contractors Foster Wheeler Ltd. and Weatherford International Ltd.

announced their moves Wednesday. Transocean Inc., a big offshore driller, received shareholder approval Monday for a similar move. The board of Bermuda-based insurer ACE Ltd. earlier this year approved a "redomestication" from the Cayman Islands to Zurich.

The move to Switzerland will help the companies preserve the tax benefits they had in Bermuda and the Cayman Islands, while using Switzerland's tax treaty with the U.S. to shield them from possible adverse legislation from the incoming administration and next Congress. Bermuda imposes no corporate income tax. Switzerland

has a corporate income tax, but doesn't levy it on profit earned by subsidiaries overseas.

President-elect Barack Obama when he was in the Senate was one of the lead sponsors of an anti-tax-haven bill last year that never made it to a vote. A similar measure would likely have a better chance under a more heavily Democratic Congress and supportive president.

"Basically the reason why it's happening now is the concerns that the Obama administration may close some of the loopholes," said Mark Brown, an analyst with Pritchard Capital Partners.

Top Tyco and Foster Wheeler executives will remain in the U.S., along with the companies' effective operating headquarters. Fourteen Transocean executives, including its chief executive, will relocate to Zug, Switzerland, but Houston will remain the company's largest office. Weatherford's CEO and other top executives will relocate, the company said.

The moves drew criticism from Rep. Lloyd Doggett, (D,

Texas), who has led efforts in the House to curb tax benefits for companies incorporated in countries with which the U.S. has no general income-tax treaty. "Moving millions to ski resorts from sunny beaches is more evidence that our efforts to block tax evaders will be continually undermined until we revive international cooperation to close corporate tax loopholes," he said in a written statement.

Moving from Bermuda helps avoid expected legislation under an Obama White House.

Some of the companies have mentioned nontax reasons for their moves.

When Transocean announced its plans in October, CEO Bob Long said the move would allow the company to "better focus on strategic growth markets by locating our principal executive offices

more centrally within Transocean's area of world-wide operations." Transocean also said in a securities filing, however, that the move would "substantially lower our tax risk related to possible tax-legislation changes."

Weatherford included nearly identical language in its filing. Tyco's filing also cited the legislation and potential moves by Congress to limit the ability of such companies to get government contracts.

Several companies, including Weatherford, and drilling contractors Noble Corp. and Nabors Industries Ltd., moved their incorporation to Bermuda or the Cayman Islands in 2002, drawing fire from political leaders who said the moves were unpatriotic so soon after the Sept. 11 attacks. There have been several efforts to close the loophole since then.

Analysts didn't completely dismiss nontax reasons for the moves. Weatherford, for example, is one of the most internationally focused oil-field services firms and has been trying to grow overseas. "This positions them much better as an international company," Mr. Brown said.

Many pieces of U.S. antitax-haven legislation specifically target countries that don't have tax treaties with the U.S., such as Bermuda.

The shifts to Switzerland carry some risk. Standard &

Poor's announced Thursday it would remove Transocean from the S&P 500 stock index, as happened to ACE when it moved earlier this year. The S&P 500 and other indexes require companies to be based in the U.S. Removal from an index can hurt a company's stock performance because many funds automatically buy stocks in the index. Weatherford's shares fell 4.8% Thursday, and Tyco's tumbled 9.8%, with analysts citing that concern.

Others were skeptical that moving a few executives to Switzerland would ease political scrutiny of reincorporation. "At the end of the day, I'm not sure that moving the top two or three or even 20 guys looks great," Credit Suisse analyst Brad Handler said.